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MARTIN-McNEELY MINES, LIMITED

Annual Report

For the Year Ended December 31, 1966

MARTIN-McNEELY MINES, LIMITED

To the Shareholders:

The Board of Directors present herewith to the shareholders the Annual Report for the calendar year 1966. This Report includes the Balance Sheet of your company, a Statement of Exploration and Administrative expenses, together with a Statement of Source and Application of funds.

Under the direction of Cochenour-Willans Gold Mines Limited the program for the development of Wilmar Mines and Annco Mines Limited has continued throughout the year. A detailed review of the work completed, together with the projected plans for the future of each of these companies is set forth in the reports to the shareholders of these companies issued on behalf of the Directors and signed by General Manager, J. E. J. Fahlgren. Copies of these reports are contained within this Annual Report.

We as directors of Martin-McNeely Mines Limited appreciate the difficult conditions which have confronted the Cochenour-Willans management during the past year.

ANNCO MINES LIMITED (Martin-McNeely holds 1,301,668 shares)

The Annual Report of this company presented one year ago contained a substantial spirit of optimism. This optimism was supported by the fact that in the initial break-in period commencing in June 1965, even with the shipments of limited tonnages per day a substantial operating profit was derived.

The mine officially came into production January 1, 1966. The application claiming new mine status has been denied by the Department of National Revenue on the basis that they regard Annco Mines Limited as an extension of Cochenour-Willans Gold Mines Limited. The matter is being pursued by legal counsel:

The following comments quoted from the letter of the E.C. Cochenour President of Annco Mines Limited to the shareholders indicate a very trying period which the company has experienced during the past year. The details of these problems are contained in the Report of the General Manager, which Report is contained within this report.

"It has been disappointing that the incompetent rock hosting our ore structures has presented difficult and serious mining problems, but encouraging to note that management at the mine and the staff now believe the problems are being overcome and the operation is on the way back to an economic operation.

With the mine under control again, we can anticipate better control of dilution and an improvement in the grade of ore produced. At the same time management has taken effective steps to reduce costs by cuts in staff, reorganization of departments, and the introduction of many time saving changes.

In the comprehensive report of the operations management, will be noted the many factors over which there is no control which have direct effect on the rise in costs because of the continuing inflation throughout the nation.

Your directors believe that 1967 will reflect the improvement now apparent in the mine operations and we take this opportunity to express our appreciation to the staff and employees of our operations management for their untiring efforts throughout a difficult and challenging year."

WILMAR MINES LIMITED (Martin-McNeely holds 1,315,666 shares)

The details of the developments during 1966 together with a summary of the results since the commencement of the exploration program in 1959 are set forth in the report of the General Manager of Wilmar Mines Limited to the Board of Directors, which report is contained in our Annual Report.

The President of Wilmar Mines Limited (E. C. Cochenour) in his letter to the shareholders states that "your Directors will consider recommendations received for the development of the 1900 level from the winze to explore the up dip extension of the No. 3 East Breccia zone, and the financial arrangements which will have to be made."

EXPLORATION

Pine Point Syndicate

Work during the past year has found nothing of importance.

Mattagami Lake

Your company's interest in Marmattagami Mines has been maintained.

Ross River Syndicate

K. G. Ellard Grubstake

Robert Campbell Syndicate

Your company is continuing their participation in these Syndicates.

Other Exploration

Your company proposes to continue to pursue conservatively any exploration opportunities. We are currently participating in a number of grubstake syndicates.

FINANCIAL

At the end of 1965 your company had liquid assets of approximately $475,000.00 after placing approximately $150,000.00 in the treasuries of Wilmar Mines Limited and Annco Mines Limited.

Operating expenses have been kept to a minimum and the company received from interest and dividends the sum of some $28,000.00 in excess of exploration and administrative expenses. In addition, there was a gain on the sale of investments of some $6,000.00.

Your company is a party to agreements with Cochenour Willans Gold Mines Limited and Annco Mines Limited; and Cochenour Willans Gold Mines Limited and Wilmar Mines Limited, where, in each case if production is warranted, milling facilities are to be provided by Cochenour Willans who also undertake to mine and mill ore at cost.

On behalf of the Board of Directors,

J. R. MOONEY,
President.

Toronto, Ontario,
June 5, 1967.

MARTIN-McNEELY

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Balance Sheet as a

(with comparative figu

ASSETS

	1966	1965
CURRENT:		
Cash	$ 1,993.17	$ 2,709.45
Short term investments at cost	200,000.00	400,000.00
Marketable securities at cost (Quoted market value 1966 $271,150; 1965 $218,904)	248,552.26	158,697.71
Accounts receivable	7,269.61	16,434.52
	457,815.04	577,841.68
PARTICIPATION IN OTHER MINING COMPANIES:		
Shares at cost, less amounts written off (no quoted value)	880,814.75	747,189.75
Advance to Wilmar Mines Limited	20,000.00	–
	900,814.75	747,189.75
MINING PROPERTIES:		
Patented mining claims situated in the Township of Dome in the District of Patricia	99,470.20	99,470.20
DEFERRED:		
Participation in exploration syndicates	4,270.00	9,169.33
Deferred exploration and administrative expenditures	216,529.93	244,904.92
	220,799.93	254,074.25
	$1,678,899.92	$1,678,575.88

AUDITO

To the Shareholders,
Martin-McNeely Mines, Limited

We have examined the balance sheet of Martin-McNeely Mines, Limited as at December 31, 1966 and the statements of deferred exploration and administrative expenditures and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
April 11, 1967.

MINES, LIMITED

the Province of Ontario)

December 31, 1966

at December 31, 1965)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1966	1965
CURRENT:		
Accounts payable and accrued charges	$ 1,191.09	$ 2,096.01
SHAREHOLDERS' EQUITY:		
Capital Stock		
Authorized		
6,000,000 shares of $1.00 par value		
Issued		
6,000,000 shares	6,000,000.00	6,000,000.00
Less discount on shares	4,312,181.26	4,312,181.26
	1,687,818.74	1,687,818.74
Deficit	10,109.91	11,338.87
	1,677,708.83	1,676,479.87
	$1,678,899.92	$1,678,575.88

Approved on behalf of the Board:

JOHN R. MOONEY, Director

G. F. MacDONNELL, Director

EPORT

In our opinion the accompanying balance sheet and statements of deferred exploration and administrative expenditures and deficit present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and applications of funds of the company for the year ended December 31, 1966.

ALLEN, MILES, FOX & JOHNSTON
Chartered Accountants

MARTIN-McNEELY MINES, LIMITED

STATEMENT OF DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

FOR THE YEAR ENDED DECEMBER 31, 1966

(with comparative figures for 1965)

	1966		1965	
BALANCE — December 31		$244,904.92		$249,005.49
EXPLORATION:				
Miner's license	$ 100.00		$ 100.00	
Consulting fees and expenses	—		1,266.00	
Acreage and municipal taxes	48.56		44.82	
Engineering and geological services	672.50		866.70	
	821.06		2,277.52	
ADMINISTRATIVE:				
Telephone and telegraph	112.50		114.05	
Shareholders' information	856.81		752.29	
Share certificate expense	—		554.50	
General expense	266.89		318.80	
Transfer agent's fees	1,330.85		1,785.90	
Office rental	600.00		600.00	
General administration expenses	1,800.00		1,800.00	
Directors' fees	1,750.00		525.00	
Audit	500.00		500.00	
Office salary and expense	568.14		572.10	
	7,785.19		7,522.64	
Total exploration and administrative for the year		8,606.25		9,800.16
			253,511.17	258,805.65
DEDUCT:				
Interest income	18,313.74		21,155.73	
Dividend income	18,667.50	36,981.24	9,125.00	30,280.73
			216,529.93	228,524.92
ADD:				
Gain on sale of investments in prior years transferred to deficit account		—		16,380.00
BALANCE DEFERRED — December 31		$216,529.93		$244,904.92

MARTIN-McNEELY MINES, LIMITED

STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1966
(with comparative figures for 1965)

	1966	1965
Balance – January 1	$11,338.87	$78,482.82
Add		
Participation in mining syndicates written down	5,296.83	3,706.00
	16,635.70	82,188.82
Deduct		
Gain on sale of investments in prior years previously included in deferred exploration	–	16,380.00
Gain on sale of investments	6,525.79	54,469.95
	6,525.79	70,849.95
Balance – December 31	$10,109.91	$11,338.87

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1966
(with comparative figures for 1965)

	1966	1965
FUNDS WERE PROVIDED AS FOLLOWS:		
Operations		
Investment income less exploration and administrative expense	$ 28,374.99	$ 20,480.57
Gain on sale of investments	6,525.79	54,469.95
Proceeds on sale of shares of Luxor Red Lake Mines Limited	125.00	—
Proceeds on issue of 100,000 shares of the capital stock of the company at 70¢ per share	–	70,000.00
	35,025.78	144,950.52
FUNDS WERE APPLIED TO:		
Purchase of shares of Annco Mines Limited	10,000.00	21,250.00
Purchase of shares of Wilmar Mines Limited	123,750.00	112,083.00
Purchase of shares of Marmattagami Mines Limited	–	1,060.00
Advance to Wilmar Mines Limited	20,000.00	–
Cost of participation in mining syndicates – net	397.50	6,935.33
	154,147.50	141,328.33
Increase or (decrease) in working capital	$(119,121.72)	$ 3,622.19

	December 31 1966	December 31 1965	
Current assets	$457,815.04	$577,841.68	
Current liabilities	1,191.09	2,096.01	
	$456,623.95	$575,745.67	
Decrease in working capital			$ 119,121.72

MARTIN-McNEELY MINES, LIMITED

PARTICIPATION IN EXPLORATION SYNDICATES

DECEMBER 31, 1966

Ross River Syndicate	$ 625.00
Pine Point Area	3,636.00
Interest in syndicates written down to nominal value	9.00
	$ 4,270.00

SHARES IN OTHER MINING COMPANIES

DECEMBER 31, 1966

Unlisted and escrowed shares in mining companies
at cost less amounts written down

	Shares	Book Value
Luxor Red Lake Mines Limited	197,500	$ 9,875.00
Lake Expanse Gold Mines Limited	15,000	1,332.50
Bruno Mining Corporation Limited (shares escrowed) (nominal value)	10,000	1.00
Annco Mines Limited	1,301,668	234,083.25
Wilmar Mines Limited	1,315,666	625,110.10
Marmattagami Mines Limited (135,000 shares escrowed)	160,000	10,412.90
		$880,814.75

MARTIN-McNEELY MINES, LIMITED

To the President and Board of Directors
ANNCO MINES LIMITED
Suite 1203, 2200 Yonge Street
Toronto, Ontario

Gentlemen:

This report covering the operations of your company for the year 1966 is submitted for your consideration.

Your mine officially came into production January 1st, 1966. Our application claiming new mine status has been denied by the Department of National Revenue, on the basis that they regard Annco merely as an extension of the Cochenour Willans mine. The matter is being pursued by our legal counsel.

The year 1966 was a difficult and testing one. The incompetent rock hosting the ore structures of the Annco mine presented a number of serious problems in the mining of its ore. Caving produced an excessive dilution of the ore grade, and presented unsafe working conditions. The method of mining had to be changed, and heavy timber for continuous back support as well as hydraulic backfill was introduced to control rock movement. It has been a slow process that has taken more time to recover collapsed stopes and stabilize ground conditions than normally anticipated. The most experienced and qualified Cochenour miners were placed in the Annco stopes, and ten timbering crews had to be trained.

PRODUCTION

42,133 tons of ore were sent to the Cochenour mill producing 15,392,327 fine ounces of gold and 786.04 fine ounces of silver valued at $581,670.04 for an average recovery of $13.81 per ton milled. The price received for gold averaged $37.73 Canadian per fine ounce and for silver $1.39 per ounce. All bullion was shipped to the Royal Canadian Mint.

Your company qualified for Emergency Gold Mining Assistance. Total income estimated to be received under the provisions of this Act is $158,156.15 or $10.27 per ounce of gold.

COSTS

The 1966 operating year experienced a drastic increase in operating costs brought on by the rock problems referred to above, and in its wake came the need for complete stabilization of ground conditions in the stoping areas, which in turn necessitated conversion of mining methods, retraining of personnel, greatly increased use of timber for back support, hydraulic backfill to be supplied by the mill and supplemented by sand which had to be trucked from the surface pit.

Introduction of the 40 hour week, higher wage rates, job training due to the shortage of experienced miners, and the continuing inflation affecting cost of materials and supplies attributed to further substantial cost increases. Adjustments in insurance and medical plans and introduction of the Canada Pension plan were other items affecting costs. To settle the talcose ores in the milling circuit, additional reagents had to be introduced.

SCHEDULE OF OPERATING COSTS

	1966			1965
	Total	Per Ton Milled	Per Ounce	Per Ton Milled
Tons Milled 42,133				
Development	$ 142,925	3.392	9.285	—
Mining	443,219	10.520	28.795	5.825
Milling	144,332	3.426	9.377	3.033
General & Administrative	107,441	2.550	6.980	2.699
Marketing	4,590	.108	.298	.145
TOTAL OPERATING COSTS	$ 842,507	$19.996	$54.735	$11.702
E.G.M.A.	158,156	3.754	10.275	—
	$ 684,351	$16.242	$44.460	$11.702

MINE DEVELOPMENT

Development was down considerably from the previous year because as mentioned in last year's report, essentially all the ore blocks above the 2050 level had been developed for mining at the end of 1965. A long crosscut on the 2200 level was driven to open up this new level.

Raising in the talc ore has had to be discontinued due to spalling and the loose ground conditions which follow. Future development of the ore zones in this incompetent rock will be done without raise openings whereby cut-and-fill mining is established from sub-drifts, with timber support and auxiliary forced ventilation provided.

The following table outlines the work completed during the year and last year's figures are provided for comparison.

	Drifts	Crosscuts	Raises	1966 Total	1965 Total
1675 Level	58	—	—	58	416
1800 Level	—	—	129	129	809
1925 Level	21	—	479	500	1,740
2050 Level	140	—	393	533	2,246
2200 Level	166	419	—	585	—
	385	419	1,001	1,805	5,211
DIAMOND DRILLIING (Underground)				11,546	26,580

DIAMOND DRILLING EXPLORATION

Underground diamond drilling was reduced substantially during 1966 when compared with 1965. Much of the drilling was directed at blocking out and searching for ore extensions in areas of indicated ore above the 2050 level horizon. Some diamond drilling was also carried out from the newly developed 2200 level, which encountered ore values in down dip extensions of the main talc shear structures.

MINING

The mill feed was supplied from the mining of 25 stopes which produced 39,682 tons of ore averaging 0.41 ounces gold per ton and from 14 development headings which produced 2,451 tons of ore averaging 0.27 ounces gold per ton.

To the end of 1966 your mine had produced 52,186 tons of ore averaging 0.45 ounces gold per ton, which is below the estimated grade of 0.52 estimated for the original 150,000 tons of ore indicated above the 2050 level and below the anticipated grade of 0.60 ounces gold per ton. As mining proceeded, exceptionally poor ground conditions developed, which proved to be far more serious than originally indicated, and subsequent caving caused a heavy dilution of the ore.

The mine has, therefore, faced an exceptionally high mining cost arising from expensive ground support in the stoping areas. Instead of an anticipated profit from the 1966 operation, the mine suffered a substantial operating loss. These high costs which affected the whole mine will level off. Hydraulic backfill combined with timber back support is now proving successful and given reasonable ore structure continuity, future mining is anticipated to produce an overall average grade of between 0.50 and 0.60 ounces gold per ton.

The daily tonnage in 1966 averaged 115 tons, which rate fell short of the projected 150 to 200 tons per day rate. This rate will continue until speed and efficiency are attained. The rate of 150 tons per day should be attained by mid 1967.

The 2200 level crosscut from the Cochenour No. 1 Shaft was completed and subsequent drifting reached the indicated ore zones. Drift development is continuing. Several stopes have now been established and are currently being mined. Cut-and-fill mining, supplemented with timber back support to control ground conditions on this new horizon is proving more successful in controlling dilution from the outset. A drift into the hanging wall of the ore structures on this 2200 level is planned to provide a base to explore for depth extensions.

On the 2050 level an extension of the Cochenour Carbonate structure was located and mining is underway on it. Carbonate ore tonnage potential on this level appear limited, but exploration for down dip extensions will be undertaken.

CONCLUSION

The problems of the past year have been exceptionally difficult, exerting great pressure on the staff and employees. With the mine under control again, and most of the nightmarish challenges which continued to hound us overcome, the mine staff and myself believe that the operations are on their way back to an economic operation. Many of the unforseen costs which developed with respect to ground control are behind us and while speed and efficiency has to be attained to a greater degree, our efforts are now concentrated on these points, and good progress is apparent. Drastic cuts in staff and reorganization of departments have been undertaken to reduce costs. A timber cage-car has been built in the shops which will effect time saving in the handling and moving of timber materials.

With the operations in deficit during 1966, the Directors of Cochenour Willans Gold Mines, Limited had to consider the advisability, as operations management, of recommending the closing of the Annco mine. While the mining problems are great, they appear to be surmountable, and as the mine staff feel confident the operation can be reversed to a profitable one, it was decided to follow this course, and Cochenour Willans therefor continued to advance the necessary finances to carry the Annco operations, which at the year end totalled $345,930. We are pleased to say good progress is being made.

Respectfully submitted,

COCHENOUR WILLANS GOLD MINES, LIMITED
Operations Management

J. E. J. FAHLGREN,
General Manager

April 27, 1967
COCHENOUR, Ontario

MARTIN-McNEELY MINES, LIMITED

To the President and Board of Directors
WILMAR MINES LIMITED
Suite 1203, 2200 Yonge Street
Toronto, Ontario

Gentlemen:

This report covering the operations of your company for the year 1966 is submitted for your consideration.

A continuous program of underground exploration has been conducted on the Wilmar property since 1959. Crosscutting, drifting, and diamond drilling has been carried out on two levels, the 1300 and the 2050. The 1300 level is an extension from Cochenour workings on this horizon and is therefore connected with the No. 1 Cochenour shaft. The 2050 level on the Wilmar was developed following the sinking of the Wilmar winze.

The work completed to date is set out below:

Crosscutting	10,464 feet
Drifting	4,510 feet
Raising	1,493 feet
Internal 4 Compartment Winze	816 feet
Stations	5 feet
Underground diamond drilling	127,491 feet
Surface diamond drilling	11,822 feet

1300 HORIZON

During 1966 a total of 423 feet of raise advance was completed on the 1300 level to explore the mineralized zones exposed on this horizon. Drifting advance on the 1300 level amounted to 1,436 feet during the year. This advance completed the West Exploration Drift to the southwest corner of the property. Subsequent diamond drilling encountered several interesting geological situations, but failed to locate any gold values of economic interest. The results of this area are being studied and area drilling has been suspended until the recommendations are known.

The only feature of economic interest to date in the West Exploration Drift is the large mineralized grandiorite-talc schist complex. Scattered gold and silver values have been encountered in drift exposures and in a number of diamond drill holes which tested the zone. The zone is outlined along a strike length of over 600 feet and its width varies from 120 to 30 feet, averaging around 80 feet. The vertical extent of the zone has not been defined. Drill holes drilled to vertical distances of 75 feet below and above the drift level remained in structure at the end of the holes. From the present information an estimate only can be made regarding grade. The majority of the zone is estimated to carry 0.10 to 0.15 ounces gold per ton, but a few diamond drill intersections appear higher grade. This complex has considerable potential as a large tonnage low grade structure and additional diamond drilling is warranted.

2050 HORIZON

Four mineralized zones were tested on this horizon, but only the No. 3 East Breccia zone proved continuity of values. A raise driven on this structure advanced a raise distance of 215 feet, placing the face

of the raise at a position 150 feet vertically above the 2050 drift level. This position coincides with the station back elevation of the 1900 foot level in the Wilmar winze. Gold bearing mineralization was continuous for the total length of the raise. All raise muck was carefully sampled and averaged 0.788 oz. gold per ton (assays cut to 2.00 oz. Gold).

The No. 3 East Breccia zone is estimated to contain 50,000 tons plus grading 0.40 ounces gold per ton, between the 2050 and 1900 level horizons.

To continue the exploration of the Wilmar property and in particular to develop the No. 3 East Breccia zone up dip, a program of drifting, diamond drilling and raising is recommended. Diamond drilling conducted from the top of the raise encountered good values at the 1900 foot horizon and in holes up to 30 feet above the raise. The original down drilling from the 1300 foot horizon in the vicinity of the No. 3 Breccia zone encountered mineralization from 30 to 100 feet above the 1900 horizon.

The results of all the work on the Wilmar to date, indicate the following zones:

1300 LEVEL:

Nos. 1, 2 & 3 Carbonate Zones and Nos. 1, 2 & 3 Breccia zones with a total tonnage potential of 1400 tons per vertical foot grading 0.28 ounces gold per ton with an estimated silver content of 1.72 ounces silver per ton.

Fault Dyke Zone (East) 500 tons per vertical foot grading 0.11 to 0.15 oz. gold per ton.

Grandodiorite-Talc Schist Zone (West) 2,000 tons plus per vertical foot grading 0.10 to 0.15 gold per ton.

2050 LEVEL:

No. 3 East Breccia Zone — 350 tons plus per vertical foot averaging 0.40 ounces gold per ton.

Preparations have been completed to drive on the 1900 foot horizon to explore the No. 3 East Breccia zone up dip and other possible zones in the area. This project will proceed when miners are available and financial arrangements have been completed.

Respectfully submitted
COCHENOUR WILLANS GOLD MINES LIMITED
(Operations Management)

J. E. J. FAHLGREN
General Manager.

April 27th, 1967
COCHENOUR, Ontario

Martin-McNeely Mines, Limited

DIRECTORS

G. F. MacDonnell	Toronto
J. H. Shepherd	Montreal
Dr. G. C. McCartney	Toronto
J. R. Mooney	Toronto
C. E. Mooney	Toronto
G. B. Henning	Toronto
S. J. Zacks	Toronto

OFFICERS

J. R. Mooney	*President*
G. F. MacDonnell	*Vice-President*
J. H. Shepherd	*Vice-President*
N. W. Wheatley	*Secretary-Treasurer*

Transfer Agent and Registrar
Eastern & Chartered Trust Company

Toronto, Ontario
Auditors
Allen, Miles, Fox & Johnston, Toronto

Head Office
Suite 303 - 330 Bay Street
Toronto, Ontario

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 3.00 o'clock p.m., Thursday, June 29, 1967, in the Algonquin Room, Royal York Hotel, Front Street West, Toronto, Ontario.